

## Internal Revenue Service

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## Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:PSI:B01

PLR-147190-08

Date:

April 24, 2009

### Legend:

X =

IRA #1 =

IRA #2 =

A =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

State =

Dear \_\_\_\_\_ :

This letter responds to your letter dated October 20, 2008, and subsequent correspondence, submitted on behalf of X, requesting a ruling under § 1362(f) of the Internal Revenue Code.

### FACTS

X was incorporated under the laws of State on D1 and elected to be an S corporation, effective D2. On D3, A transferred his shares of X stock to IRA #1, an ineligible shareholder under § 1361(b)(1)(B). On D4, the shares in IRA #1 were transferred via direct rollover to IRA #2. In D5, X learned that its S corporation election had terminated on D3 when IRA #1 became a shareholder of X. Subsequently, on D6, IRA #2 transferred the respective shares of X stock to A.

X represents that there was no tax avoidance or retroactive tax planning involved in the transfer of its stock to IRA # 1 and IRA # 2. In addition, X and its shareholders agree to make any adjustments consistent with the treatment of X as an S corporation as may be required by the Secretary with respect to the period specified by § 1362(f).

### LAW AND ANALYSIS

Section 1361(b)(1)(B) provides that, for purposes of subchapter S, the term "small business corporation" means a domestic corporation that is not an ineligible corporation and that does not, among other requirements, have as a shareholder a person (other than an estate, a trust described in § 1361(c)(2), or an organization described in § 1361(c)(6)) who is not an individual.

Section 1362(d)(2)(A) provides that an election under § 1362(a) is terminated whenever (at any time on or after the first day of the first taxable year for which the corporation is an S corporation) such corporation ceases to be a small business corporation. Section 1362(d)(2)(B) provides that any termination under § 1362(d)(2)(A) is effective on and after the date of cessation.

Section 1362(f) provides that if (1) an election under § 1362(a) by any corporation was terminated under § 1362(d)(2) or (3); (2) the Secretary determines that the circumstances resulting in the termination were inadvertent; (3) no later than a reasonable period of time after discovery of the circumstances resulting in the termination, steps were taken so that the corporation for which the termination occurred is a small business corporation; and (4) the corporation for which the termination occurred, and each person who was a shareholder in the corporation at any time during the period specified pursuant to § 1362(f), agree to make the adjustments (consistent with the treatment of the corporation as an S corporation) as may be required by the Secretary with respect to this period, then, notwithstanding the circumstances resulting in the termination, the corporation shall be treated as an S corporation during the period specified by the Secretary.

### CONCLUSION

Based solely on the facts submitted and representations made, we conclude that X's S corporation election terminated on D3 when IRA # 1 an ineligible S corporation shareholder under § 1361(b)(1)(B), acquired stock in X. We also conclude that the termination was inadvertent within the meaning of § 1362(f). Consequently, we conclude that X will continue to be treated as an S corporation from D3 to D5, and thereafter, provided that X's S corporation election was valid and was not otherwise terminated.

Accordingly, for the time that IRA #1 and IRA #2 held X stock, A must include the pro rata shares of the separately and non-separately computed items attributable to these shares in A's income as provided under § 1366, make adjustments to the stock basis of those shares as provided in § 1367, and take into account any distributions with respect to those shares as provided in § 1368.

Except for the specific ruling above, no opinion is expressed or implied concerning the federal tax consequences of the facts of this case under any other provision of the Code. Specifically, no opinion is expressed or implied regarding X's eligibility to be an S corporation.

Under a power of attorney on file with this office, we are sending a copy of this letter to your authorized representatives.

This ruling is directed only to the taxpayer who requested it. According to § 6110(k)(3), this ruling may not be used or cited as precedent.

Sincerely,

*Faith Colson*

Faith Colson  
Senior Counsel, Branch 1  
Office of the Associate Chief Counsel  
(Passthroughs & Special Industries)

Enclosures (2)

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cc: